12 Inequality and Poverty in Latin America: A Long-Run Exploration

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Latin America is today the world region in which inequality is highest, with an average Gini coefficient above 50 during the last four decades of the twentieth century (Deininger and Squire, 1996; 1998). A stable income distribution in the early postwar period worsened after 1980 (Altimir 1987; Morley 2000). Furthermore, no significant improvement in the relationship between income distribution and economic growth has taken place during the last decade (Londoño and Székely 2000), and inequality remains high despite episodes of sustained growth (ECLAC 2000).

Is today's high inequality a permanent feature of modern Latin American history? How has inequality affected poverty in the long run? These are pressing questions for social scientists. Unfortunately, no quantitative assessment of long-run inequality has been carried out for Latin America, except for Uruguay (Bértola 2005), but the perception of unrelenting inequality deeply rooted in the past is widespread (see, for example, Bourguignon and Morrisson's (2002) assumptions).

In this chapter I first examine long-run trends in inequality in modern Latin America and then, on the basis of trends in inequality and growth, make a preliminary attempt at calibrating their impact on poverty reduction.

When did inequality originate, and why has it persisted over time? Alternative interpretations have been put forward. Those that emphasize its colonial roots are worth stressing. According to Engerman and Sokoloff (1997), initial inequality of wealth, human capital, and political power conditioned institutional design, and hence performance, in Spanish America. Large-scale estates, built on pre-conquest social organization and an extensive supply of native labor, established the initial levels of inequality. In the post-independence world, elites designed institutions protecting their privileges. In such a path-dependent framework government

policies and institutions restricted competition and offered opportunities to select groups (Sokoloff and Engerman 2000).

Acemoglu, Johnson, and Robinson (2002) provide a different explanation for the uneven fate of former colonies. Where abundant population showed relative affluence, ''extractive institutions'' were established, under which most of the population risks expropriation at the hands of the ruling elite or the government (forced labor and tributes, often existing already in the pre-colonial era, over the locals). With political power concentrated in the hands of an elite, this represented the most efficient choice for European colonizers despite its negative effects on long-term growth. This would be the case of the Iberian empires in the Americas, especially in its economic centers of Peru and New Spain.

The opening up to the international economy has been associated with a widening of income differences within and across countries. *Dependentists* have seen it as a cause of increasing inequality across and within countries, stressing the role of the terms of trade in Latin American retardation as countries either improved and shifted resources to primary production (Singer 1950) or deteriorated and provoked immiserizing growth (Prebisch 1950). Neoclassical trade theory predicts that trade liberalization after independence would allow Latin American countries to specialize along the lines of comparative advantage. The Heckscher-Ohlin model predicts that natural resources, as the abundant factor, will be intensively used and, as a result, their relative price in terms of labor will increase. This implies, in the Stolper-Samuelson extension of the Heckscher-Ohlin model, that insofar as land, the abundant factor, is more unequally distributed than labor, inequality will rise within national borders.

No evidence on inequality is available for the pre-1870 period with the exception of Argentina, for which Newland and Ortiz (2001) show that the expansion in the pastoral sector resulting from improved terms of trade increased the reward of capital and land, the most intensively used factors, while the farming sector contracted and the returns of its intensive factor, labor, declined, as confirmed by the drop in nominal wages. A redistribution of income in favor of owners of capital and land at the expense of workers took place in Argentina between 1820 and 1870. Williamson (1999) has explored the consequences for inequality of the early phase of globalization (1870–1914). On the basis of the wage-land rental ratio, he showed an increase of inequality within countries in Argentina and Uruguay that confirms empirically the Stolper-Samuelson theoretical predictions. As natural resources were the abundant productive factor in

Latin America, they were more intensively used in the production of exportable commodities. As a result, returns to land grew, relative to those of labor. Since the ownership of natural resources is more concentrated than that of labor, income distribution tended to be skewed toward landowners, and inequality rose over the decades prior to World War I. Presumably, inequality trends reversed in the interwar period, when globalization was interrupted, as suggested by the fact that the steep decline in the wage-rental ratio stopped in Argentina and Uruguay, and rose in the 1930s (Bértola and Williamson 2005). Globalization after 1980 has also been associated with rising inequality in Latin America.

Lewis's (1954) labor surplus model, in which the worker fails to share in GDP per capita growth because elastic labor supplies (migration of surplus labor from southern Europe, especially Spain and Italy) keep wages and living standards stable, also provides the basis of an interpretation of rising inequality in Argentina (Díaz-Alejandro 1970) and Brazil (Leff 1982) during the early phase of globalization.

But, can we quantify trends in income inequality in modern Latin America? Lack of historical household surveys prevents replication of modern inequality studies. Only after careful and painstaking research, country by country, can standard inequality measures be provided for Latin America's past.

An approach to assessing inequality has been proposed and applied to a wide international sample over 1870–1940 by Williamson (2002): the ratio of GDP per worker to unskilled wages. The rationale for this choice is that such a ratio confronts the returns to unskilled labor with the returns to all production factors, that is, GDP. Since unskilled labor is the more evenly distributed factor of production in developing countries, an increase in the ratio suggests that inequality is rising. So, in order to convey an idea of how inequality has evolved within Latin American societies, I have constructed Williamson's inequality index as the ratio of real GDP per worker to real wages, normalized with $1913 = 1$ (see appendix).

Long-run trends in inequality derived with 11-year centered moving averages are presented for a group of main Latin American countries in figures 12.1a and 12.1b. A sustained rise in the inequality index from the late nineteenth century up to World War I is observed for the Southern Cone (no data available for Colombia) during the early phase of globalization (figure 12.1a). Conversely, a decline in inequality took place in the interwar years, as globalization was reversed. This view confirms the Stolper-Samuelson interpretation. The stabilization or decline of

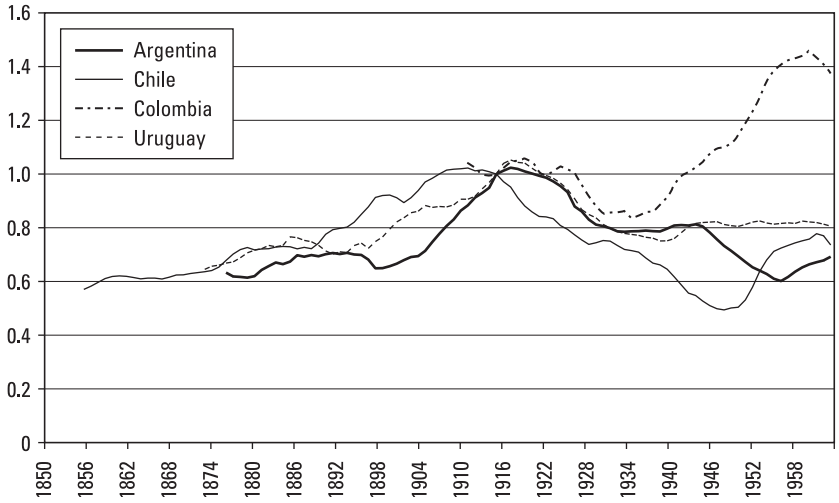

Figure 12.1a
Inequality indices in Argentina, Chile, Colombia, and Venezuela (1913 = 1).

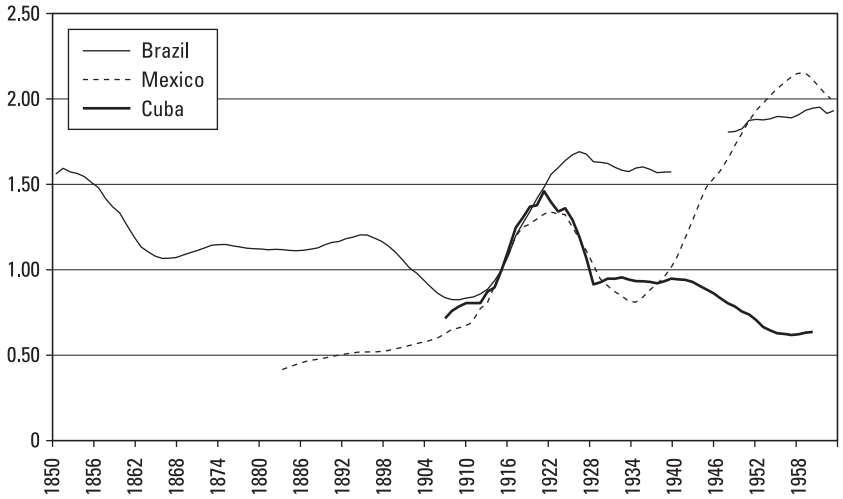

Figure 12.1b
Inequality indices in Brazil, Cuba, and Mexico (1913 = 1).

inequality during the mid-twentieth century could be related, as Bértola (2005) points out, to urbanization and the emerging role of government. Redistributive policies, as suggested by the rise of income tax share of government revenues in the thirties and forties (Astorga and Fitzgerald 1998, 346), are correlated with the decline in the inequality index in Argentina and Chile and its stagnation in Uruguay. The sustained rise in inequality exhibited between the late thirties and fifties in Colombia coincides with the ''violencia'' period (Palacios 1995).

In figure 12.1b trends in inequality are shown for Brazil, Cuba, and Mexico. Brazil presents a long-run decline up to 1913, with a flat phase between the late 1860s and 1890s, and Mexico shows a moderate increase in inequality between the 1880s and the revolution of 1910. Scattered evidence for Cuba suggests a similar pattern. A dramatic increase in inequality took place in the three countries after 1910 and well into the 1920s, followed by stabilization over the 1930s in Brazil and Cuba. A gradual rise in inequality in Brazil contrasts with the inequality reduction in Cuba between the early 1940s and the late 1950s. If the data on Cuba are taken at face value, the 1959 revolution would have occurred in a context of inequality stability after a sustained fall in a context of stagnated per capita income. The case of Mexico provides some perplexities, too. The aftermath of the 1910 revolution was a period of rising inequality followed by a dramatic inequality reduction. Then, between the mid-thirties and the mid-fifties—years of accelerating per capita GDP growth due to improving labor productivity and employment creation—a spectacular rise in the inequality would have taken place.

But how was the long-run evolution of inequality? A heuristic exercise in which available Gini coefficients (mainly from 1950 onward) are projected backward with the rate of variation of the ''inequality indices,'' previously smoothed with 11-year moving averages, is provided in table 12.1, so conjectures about long-run inequality trends can be derived (see appendix). No doubt the pseudo-Gini indices derived prior to the mid-twentieth century are questionable. By using changes in the inequality index to project Gini coefficients backward, a new time series is created in which two different cardinal measures are used: the directly estimated Gini and the backward projection. These cardinal representations of ordinal inequality measures might result in large discrepancies. Nonetheless, it can be argued that because the inequality index can be interpreted as the ratio between a quantile of the income distribution (wage rates per day or hour) and the mean of the distribution (GDP per EAP), backward projections of Gini directly estimated coefficients could be consistent with

Table 12.1
Income Distribution in Latin America: Gini Estimates and Conjectures, 1850–1990

	1850	1860	1870	1880	1890	1900	1913
Argentina			39.1	39.7	43.6	42.0	61.8
Bolivia							
Brazil	46.2	37.2	32.9	33.0	34.4	29.8	29.5
Chile	36.6	40.7	41.3	47.2	51.9	58.5	65.5
Colombia							46.8
Costa Rica							
Dominican R.							
Ecuador							
El Salvador							
Guatemala							
Honduras							
Mexico							27.8
Nicaragua							
Panama							
Paraguay							
Peru							
Uruguay			29.6	33.1	32.2	38.4	45.9
Venezuela							
LatAm4			34.8	35.9	38.0	35.4	40.5
LatAm6							37.7
LatAm15							
LatAm16							

Note: Gini direct estimates are shown in bold; otherwise, pseudo-Gini (backward projection of Gini using variation of inequality Indices).
LatAm4: population-weighted average of Argentina, Brazil, Chile, and Uruguay.
LatAm6: population-weighted average of Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay.

''first-order inequality dominance.'' In other words, the amplitude of the swings in the pseudo-Gini indices could be wrong, but not the tendency.[1]

Several features in long-run inequality are worth highlighting. Inequality rose steadily until it reached a high plateau, which stabilized over the last four decades of the twentieth century. Moreover, persistent high inequality seems to be confirmed at least since the Great Depression. Another relevant feature is the wide variance across Latin American countries, with Gini indices ranging from 40 to almost 60. Nonetheless, countries' positions in the inequality ranking are not fixed. Southern Cone nations (Argentina and Chile) exhibited the highest inequality levels until the interwar years, when inequality rose in Mexico, Brazil, and Colombia, countries that by 1950 achieved an unenviable lead in inequality.

	1929	1938	1950	1960	1970	1980	1990
Argentina	49.3	50.0	**39.6**	**41.4**	**41.2**	**47.2**	**47.7**
Bolivia					**53.0**	**53.4**	**54.5**
Brazil	47.2	46.4	55.4	**57.0**	**57.1**	**57.1**	**57.3**
Chile	49.2	40.5	41.7	**48.2**	**47.4**	**53.1**	**54.7**
Colombia	40.2	**45.0**	**51.0**	**54.0**	**57.3**	**48.8**	**56.7**
Costa Rica			30.7	**50.0**	**44.5**	**48.5**	**46.0**
Dominican R.			32.4	34.6	**45.5**	**42.1**	**48.1**
Ecuador			57.1	61.0	60.1	54.2	**56.0**
El Salvador			44.0	**42.4**	**46.5**	**48.4**	**50.5**
Guatemala			**42.3**	28.6	**30.0**	**49.7**	**59.9**
Honduras			57.1	66.0	**61.8**	**54.9**	**57.0**
Mexico	24.3	30.4	**55.0**	**60.6**	**57.9**	**50.9**	**53.1**
Nicaragua				68.1	63.2	57.9	**56.7**
Panama			56.4	**50.0**	**58.4**	**47.5**	**56.3**
Paraguay						**45.1**	**57.0**
Peru			39.2	**61.0**	**48.5**	**43.0**	**46.4**
Uruguay	36.6	34.9	37.9	**37.0**	**42.8**	**43.6**	**40.6**
Venezuela			**61.3**	**46.2**	**48.0**	**44.7**	**44.0**
LatAm4	47.5	46.4	50.4	52.7	53.1	54.9	55.2
LatAm6	41.6	42.8	51.5	54.7	54.8	53.2	54.8
LatAm15			50.6	53.9	53.5	51.9	53.7
LatAm16				54.0	53.6	52.0	53.8

LatAm15: population-weighted average of all Latin American countries but Bolivia, Cuba, Haiti, Nicaragua, and Paraguay.
LatAm16: population-weighted average of all Latin American countries but Bolivia, Cuba, Haiti, and Paraguay.

It is also worth noticing the inequality decline in Venezuela during the 1950s and the worsening of Chilean income distribution of the 1970s and 1980s. Meanwhile, Uruguay appears to follow, at least until 1960, the European pattern of inequality.

An attempt to provide a regional view is shown in figure 12.2. Two phases of inequality expansion, one before 1929 and the other from World War II to 1960, are noticeable; and a fall in inequality is evident in the 1890s (associated with the Baring crisis) and in the Great Depression years. The sustained rise in inequality since 1900 reached a high plateau in the 1960s. This remained stable over the last four decades of the twentieth century and dwarfed the contraction in inequality of the 1970s and its rise during the 1980s.

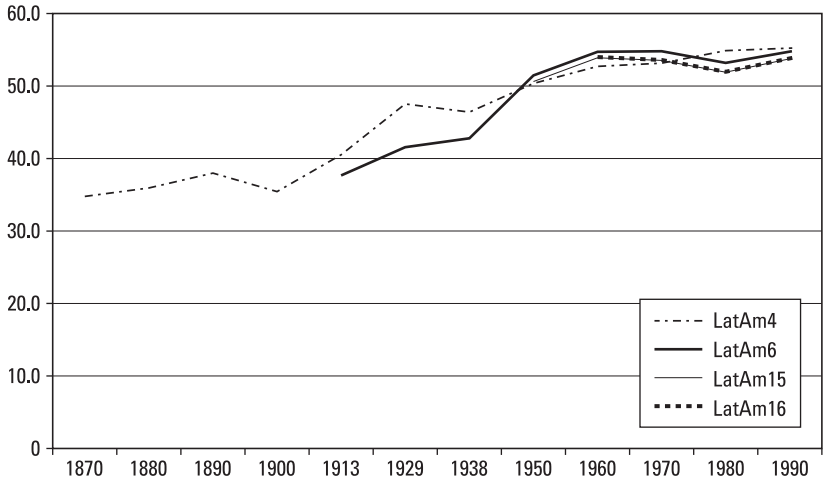

Figure 12.2
Gini estimates and conjectures for Latin America (population-weighted averages).

Inequality trends before World War I can be interpreted in Stolper-Samuelson terms. Thus, when Latin America opened up to international competition after independence, especially from the mid-nineteenth century to World War I, the relative position of land improved, and because land was unevenly distributed, inequality tended *ceteris paribus* to increase. Predictable are the reduction in inequality as the economy of Latin America closed up during the interwar period, and a new surge in inequality during the second wave of globalization (1950–1980). Naturally, the impact on income distribution of international trade and factor mobility is not the only force at play. Industrialization and redistributive forces from an increasing role of government also appear to have affected inequality reduction in Latin America during the twentieth century.

It is worth noting that inequality often appears to be positively correlated with economic growth, as suggested by the correspondence between rising inequality and per capita income before 1913 (especially in the Southern Cone) and after 1950, and their decline in the interwar period (see tables 12.1 and 12.2). Was there a trade-off between growth and inequality in Latin America? This question demands careful investigation.

Long-Run Trends in Poverty

Poverty reduction depends on the growth of average income and on how income is distributed, and is closely linked to the sensitivity of poverty to

both (growth elasticity and inequality elasticity of poverty). Initial levels of development and inequality also condition the impact on poverty of growth and improvements in income distribution (Bourguignon 2003; Klasen 2004; López 2004; Ravallion 1997; 2004).

How did inequality and economic growth impinge on poverty in Latin America? In this section I focus on absolute growth of the poor's incomes (Ravallion and Chen 2003) rather than on whether a relatively disproportionate growth in the poor's incomes took place (Kakwani and Pernia 2000). In a heuristic exercise, I calibrate trends of absolute poverty from which hypotheses for further research can be derived.

A glance at Latin America's long-run economic growth is provided in table 12.2. In addition to country estimates, growth rates are presented for population-weighted averages of real GDP per head for different groups of Latin American countries (the lengthier the coverage, the lower the number of countries included). Some features can be noted. First, the origins of modern economic growth, as defined by a sustained increase in output per person, can be traced back to at least the mid-nineteenth century. Latin America experienced a sustained and steady growth over more than a century, only broken during the 1890s, the Great Depression, and especially the 1980s crisis. Fortunately, though, the picture of Latin America's performance seems quite robust. After a slow start in the mid-nineteenth century, Latin America appears to have grown significantly during the 1870s and 1880s and, after a slowdown in the 1890s, to have accelerated until World War I. Latin America's output per head slowed because of World War I and halted in the years of the Great Depression. After the Depression, its countries enjoyed their fastest phase of growth, which lasted more than four decades. Their somewhat longer than the so-called Golden Age (1950–1973). The 1980s represent a major break in the long-run performance of Latin America, which with only a partial revival in the 1990s. Thus, while the growth of the early phase, 1860s–1929, was surpassed by the performance of the 1930s–1980, the post-1980 era is a phase of slowing down. To sum up, modern Latin America experienced sustained growth since the mid-nineteenth century, that was only brought to a halt during the 1980s.

Latin America is consists of a heterogeneous group of countries that exhibit substantial discrepancies in their factor endowments and long-run performance. The high variance of growth rates of GDP per capita in Latin America proves it. In Argentina, Chile, and Mexico, income per head grew faster than Latin America's average between 1870 and 1913, whereas in Brazil, Colombia, Peru, and Venezuela this happened in 1913–1938. On the whole, during the early phase of modern economic

Table 12.2
Economic Growth in Main Latin American Countries, 1850–2000

	Argentina	Brazil	Chile	Colombia	Cuba	Mexico	Peru	Uruguay	Venezuela	LA6	LA10	LA15	LA20
1850–1870		0.2	1.7			0.0			−1.2				
1870–1890	3.3	0.2	2.0			2.0		0.4	2.6	1.7			
1890–1900	−0.8	−0.9	1.2			1.5		0.8	−1.5	0.4			
1900–1913	2.5	2.2	2.3	1.8	3.2	1.9	1.4	3.1	2.6	2.2	2.3		
1913–1929	0.9	1.4	0.9	3.9	−0.7	0.4	3.6	0.9	6.8	1.0	1.2	1.2	
1929–1938	−0.8	1.0	−0.8	1.4	0.2	0.4	0.1	0.1	0.5	0.1	0.2	0.1	
1938–1950	1.7	1.6	1.3	1.5	0.1	3.5	1.2	1.5	4.3	2.3	2.1	2.1	
1950–1960	1.1	3.7	1.5	1.6	0.3	2.3	2.9	0.6	3.4	2.4	2.3	2.3	2.3
1960–1970	3.9	3.1	1.9	2.2	−0.4	3.4	2.3	0.8	2.4	3.2	3.0	2.9	2.9
1970–1980	2.1	5.8	0.9	2.9	5.5	2.5	1.7	2.1	0.1	3.4	3.3	3.3	3.3
1980–1990	−2.4	−0.2	1.2	1.1	0.6	−0.1	−3.3	−0.2	−1.9	−0.5	−0.4	−0.5	−0.5
1990–2000	2.8	0.8	5.0	0.7	−7.1	1.7	2.3	2.1	−0.1	1.5	1.3	1.3	1.3
1870–1929	1.8	0.8	1.6			1.5		1.2	3.0	1.4			
1938–1980	2.1	3.4	1.4	2.1	1.3	2.9	1.9	1.4	2.6	2.7	2.6	2.6	2.9
1980–2000	0.2	0.3	3.1	0.9	−3.3	0.8	−0.5	0.9	−1.0	0.5	0.4	0.4	0.4
1870–1980	0.0	1.8	1.3			1.9		1.1	2.7	1.8			
1870–2000	0.0	1.6	1.6			1.8		1.1	2.1	1.6			

Notes: Logarithmic annual growth rates percent.
LA6: population-weighted average of list exact countries. Argentina, Brazil, Chile, Mexico, Uruguay, and Venezuela.
LA10: population-weighted average of LA6 plus Colombia, Cuba, Ecuador, and Peru.
LA15: population-weighted average of LA10 plus Costa Rica, El Salvador, Guatemala, Honduras, and Paraguay.
LA20: population-weighted average of all Latin American countries.

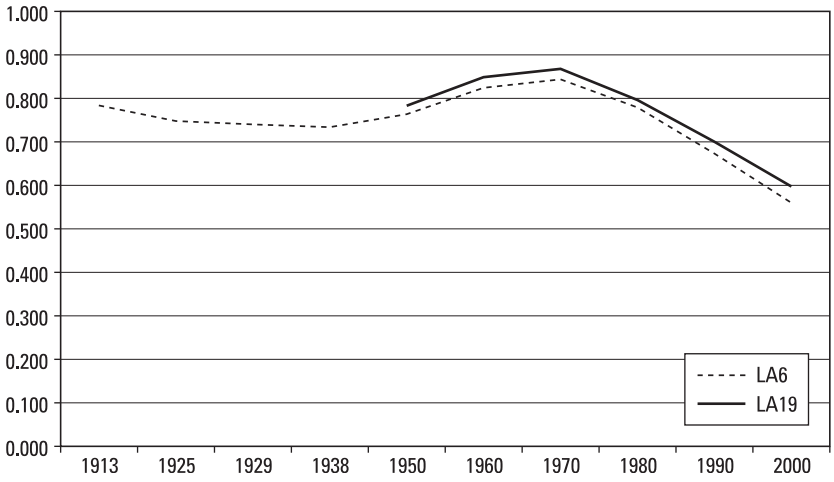

Figure 12.3
Dependence rate in Latin America (population-weighted averages).

growth (1870–1929), Colombia, Peru, Venezuela, and to lesser extent Argentina grew faster than the region's average. In the second phase of sustained expansion (1938–1980), Mexico and especially Brazil exceeded the average, and Chile stands alone above the average in the last two decades of the twentieth century.

But did economic growth reach the lower deciles of income distribution and hence help reduce absolute poverty? High dependence rates in Latin America resulting from a delayed demographic transition help explain lower levels of GDP per person, and hence higher poverty, in Latin America (figure 12.3).[2] The persistence of high dependency rates in Latin America hint at the lack of incentives to reduce fertility provided by the institutional framework and at a weak demand for human capital, which had helped bring about the demographic transition in OECD countries (Galor 2004).

The poor are unevenly distributed and more concentrated in rural areas in Latin America. Improving labor productivity increases rural incomes and helps to reduce inequality as well as to promote growth; thus it may contribute to poverty reduction. Usually, rural-urban migration is accompanied by rising productivity in agriculture, and as a whole, rural-urban migration tends to have a positive impact on poverty reduction.

Table 12.3 provides evidence of a sustained decline in the share of agriculture in total employment, which fell below one-fifth of total employment in countries of the Southern Cone, Cuba, and Venezuela during

Table 12.3
Share of Economically Active Population in Agriculture, 1900–1990

	1900	1913	1929	1938	1950	1960	1970	1980	1990
Argentina	0.39	0.35	0.36	0.35	0.25	0.21	0.16	0.13	0.12
Bolivia					0.56	0.55	0.55	0.53	0.47
Brazil		0.71		0.69	0.62	0.55	0.47	0.37	0.23
Chile	0.37	0.37	0.37	0.36	0.33	0.30	0.24	0.21	0.19
Colombia				0.73	0.59	0.52	0.45	0.40	0.27
Costa Rica					0.57	0.51	0.43	0.35	0.26
Cuba					0.41	0.36	0.30	0.24	0.18
Dominican R.					0.73	0.64	0.48	0.32	0.25
Ecuador					0.65	0.59	0.52	0.40	0.33
El Salvador					0.65	0.62	0.57	0.44	0.36
Guatemala					0.69	0.66	0.61	0.54	0.52
Haiti					0.86	0.80	0.74	0.71	0.68
Honduras					0.75	0.72	0.67	0.57	0.41
Mexico	0.62	0.68	0.70	0.66	0.66	0.54	0.50	0.36	0.35
Nicaragua					0.70	0.63	0.51	0.40	0.29
Panama					0.56	0.51	0.42	0.29	0.26
Paraguay					0.54	0.54	0.50	0.45	0.39
Peru					0.58	0.52	0.48	0.40	0.36
Uruguay					0.24	0.21	0.19	0.17	0.14
Venezuela			0.59	0.54	0.43	0.33	0.26	0.15	0.12

Source: Astorga, Bergés, and Fitzgerald (2004).

the phase of sustained growth, 1938–1980. Alas, this trend cannot be generalized. Haiti, Guatemala, and Bolivia kept half or more of the labor force in the primary sector, and several others, including Mexico and Peru, still maintained more than one-third of workers in agriculture by 1990. The labor productivity gap between agriculture and the economy as a whole tended to close over the same period (table 12.4), but, again, the correspondence between those countries experiencing a long-run decline in agricultural employment and those in which the productivity gap exhibited a shrinking trend appears weak, and only includes Argentina, Uruguay, and Venezuela. Countries such as Brazil, Chile, and Cuba reduced the relative size of agricultural employment while keeping a substantial intersectoral productivity gap. Conversely, Colombia and Central America maintained high proportions of labor in agriculture while the average labor productivity gap was closing (actually, it closed completely in Nicaragua). Reliance on cash crops helps explain why this was the case. The shift from countryside to cities is confirmed by increasing urbaniza-

Table 12.4
Relative Labor Productivity in Agriculture, 1900–1990

	1900	1913	1929	1938	1950	1960	1970	1980	1990
Argentina	0.74	0.70	0.64	0.62	0.68	0.77	0.82	0.85	1.20
Bolivia					0.46	0.44	0.31	0.28	0.32
Brazil		0.32		0.33	0.27	0.24	0.21	0.20	0.34
Chile	0.44	0.42	0.32	0.40	0.34	0.32	0.33	0.35	0.43
Colombia				0.64	0.64	0.63	0.63	0.62	0.91
Costa Rica					0.67	0.58	0.59	0.58	0.84
Cuba					0.51	0.52	0.64	0.52	0.51
Dominican R.					0.47	0.53	0.54	0.57	0.64
Ecuador					0.64	0.66	0.58	0.53	0.78
El Salvador					0.63	0.58	0.54	0.77	0.86
Guatemala					0.53	0.51	0.49	0.50	0.51
Haiti					0.61	0.62	0.68	0.56	0.58
Honduras					0.60	0.45	0.51	0.53	0.75
Mexico	0.45	0.37	0.28	0.30	0.28	0.30	0.23	0.24	0.22
Nicaragua					0.52	0.47	0.53	0.75	1.09
Panama					0.58	0.51	0.38	0.48	0.59
Paraguay					0.75	0.73	0.69	0.64	0.80
Peru					0.40	0.47	0.39	0.36	0.57
Uruguay					0.56	0.52	0.68	0.64	0.78
Venezuela				0.40	0.22	0.24	0.29	0.49	0.68

Source: Astorga, Bergés, and Fitzgerald (2004).

tion (table 12.5), which reached beyond four-fifths of the population in the Southern Cone, Brazil, and Venezuela in 2000 but still remained below half the population in Central America and Haiti.

Because low rural living standards relative to urban ones are said to be an obstacle to the impact of growth on absolute poverty reduction (Klasen 2004), I have computed crude rural-urban gap in terms of per capita income. In order to do so, I assumed that incomes in the countryside accrued mostly from agriculture. It is true that those living in rural areas also produce services and light industrial goods, but the opposite could also be said of some of those living in cities ("agro-cities," because they continue supplying labor to agricultural tasks at peak season). If agricultural output is divided by population living in nonurban areas, a lower bound for rural incomes can be obtained. Its ratio to average incomes (per capita GDP) provides a crude indicator of the income gap between countryside and the city (table 12.6).

Table 12.5
Urbanization Rates in Latin America, 1850–2000

	1850	1870	1890	1913	1929	1950	1960	1970	1980	1990	2000
Argentina	0.15	0.16	0.30	0.37	0.49	0.64	0.74	0.78	0.83	0.86	0.89
Bolivia					0.22	0.34	0.39	0.41	0.46	0.56	0.65
Brazil			0.15	0.21	0.28	0.36	0.45	0.56	0.66	0.75	0.81
Chile	0.08	0.15	0.21	0.33	0.43	0.57	0.68	0.75	0.81	0.83	0.85
Colombia			0.11	0.12	0.24	0.35	0.48	0.57	0.64	0.70	0.75
Costa Rica			0.24	0.15	0.20	0.34	0.37	0.40	0.43	0.46	0.52
Cuba	0.18	0.28	0.34	0.33	0.39	0.54	0.55	0.60	0.68	0.74	0.75
Dominican R.				0.11	0.14	0.24	0.30	0.40	0.50	0.58	0.65
Ecuador		0.10	0.20	0.25	0.23	0.29	0.34	0.39	0.47	0.55	0.62
El Salvador				0.26	0.45	0.37	0.38	0.39	0.42	0.44	0.47
Guatemala				0.30	0.25	0.25	0.32	0.36	0.37	0.38	0.40
Haiti						0.12	0.16	0.20	0.24	0.30	0.36
Honduras				0.18	0.24	0.31	0.23	0.29	0.35	0.42	0.47
Mexico			0.16	0.19	0.27	0.43	0.51	0.59	0.66	0.73	0.74
Nicaragua		0.20	0.18	0.23	0.24	0.35	0.40	0.47	0.50	0.53	0.65
Panama				0.14	0.25	0.36	0.41	0.48	0.50	0.54	0.58
Paraguay			0.20	0.37	0.24	0.35	0.36	0.37	0.42	0.49	0.56
Peru				0.12	0.25	0.42	0.46	0.57	0.65	0.69	0.73
Uruguay	0.16	0.29	0.44	0.44	0.49	0.63	0.80	0.82	0.85	0.89	0.91
Venezuela			0.11	0.13	0.27	0.43	0.61	0.72	0.79	0.84	0.87

Sources: Astorga, Bergés, and Fitzgerald (2004) backward projected with data in Flora (1981), except Chile; Cariola and Sunkel (1982, 144) for Chile, since 1870.

The evolution of the rural-urban income gap again yields ambiguous results. Although by the end of the twentieth century it closed dramatically in Colombia and Peru, and even reversed in Argentina, Uruguay, and Nicaragua, it remained large in Mexico, Central America, and the Caribbean. Thus the population residing in the countryside shrank throughout the twentieth century, and in many instances the rural-urban gap was reduced. Yet by 1990 a non-negligible share of the population, especially in the northern section of Latin America, remained in rural areas living on a substantially lower income than those in the city. Such high concentration of population in rural areas tends unequivocally to suggest poverty.

I then examine the evolution of absolute poverty as defined by a fixed international poverty line. Given the fact that Latin America, although exhibiting persistently high inequality, is not among the poorest regions of the world, I decided to use a poverty line (PL) equivalent to 1985

Table 12.6
Relative Rural Income per Head in Latin America, 1900–2000

	1900	1913	1929	1950	1960	1970	1980	1990	2000
Argentina	0.41	0.39	0.45	0.48	0.60	0.61	0.65	1.08	1.08
Bolivia				0.39	0.40	0.29	0.27	0.34	0.39
Brazil		0.29	0.32	0.26	0.24	0.23	0.21	0.31	0.47
Chile	0.21	0.23	0.21	0.26	0.30	0.32	0.39	0.48	0.40
Colombia	0.60	0.60	0.65	0.58	0.63	0.67	0.70	0.79	0.84
Costa Rica			0.25	0.58	0.47	0.42	0.36	0.40	0.25
Cuba				0.45	0.41	0.48	0.38	0.35	0.31
Dominican R.				0.45	0.48	0.43	0.37	0.38	0.39
Ecuador				0.59	0.60	0.49	0.40	0.58	0.66
El Salvador			0.79	0.65	0.58	0.51	0.57	0.56	0.42
Guatemala			0.48	0.49	0.49	0.47	0.43	0.44	0.41
Haiti				0.60	0.58	0.63	0.52	0.56	0.57
Honduras			0.74	0.65	0.42	0.49	0.47	0.53	0.52
Mexico	0.33	0.25	0.27	0.32	0.33	0.29	0.25	0.28	0.26
Nicaragua			0.87	0.56	0.49	0.51	0.60	0.67	1.05
Panama				0.51	0.44	0.30	0.28	0.33	0.29
Paraguay				0.62	0.61	0.54	0.49	0.61	0.70
Peru				0.39	0.45	0.44	0.41	0.66	0.85
Uruguay				0.36	0.55	0.71	0.71	0.99	1.15
Venezuela				0.16	0.20	0.26	0.35	0.51	0.59

Note: GDP per capita = 1.

Geary-Khamis $4 per day instead of just $1 or $2. Adjusted by the U.S. implicit GDP deflator, it represents in 1980 prices $3.1 per day (purchasing power adjusted), that is, $1,130 per person per year, or $4,521 per year for a four-member family unit.[3] On average, in Latin America, per capita income remained below the poverty line until World War I and did not double it until the 1960s.

In the ongoing debate on pro-poor growth, few views are shared. One of them is that a low level of development probably hampered the impact of growth on poverty reduction (Deiniger and Squire 1998). Moreover, the higher the initial level of inequality, the lower the reduction in poverty for a given rate of growth in GDP per head. Hence, the high levels of inequality shown in table 12.1 may have represented a deterrent for a deeper impact of growth on the poor. As Ravallion (2004) puts it, "Poverty responds slowly to growth in high inequality countries."

Measuring pro-poor growth is highly demanding in terms of empirical evidence, and data on income distribution, at least by quintile, are

required. Alas, there are no microeconomic data available on household expenditures to compute historical trends and levels of poverty in Latin America. In these circumstances, Bourguignon and Morrisson's (2002) strategy of assuming that income distribution remained unaltered in Latin America from independence to the mid-twentieth century is very appealing. Given a fixed poverty line and the proportion of population below that line for the present, it would suffice to know the growth rate of GDP per head in order to compute levels of absolute poverty for the past. In fact, research findings state that a large proportion of long-run changes in poverty are accounted for by the growth in averages incomes (Kraay 2004), and hence they emphasize the protection of property rights, stable macroeconomic policies, and openness to international trade as means of growth and poverty suppression (Klasen 2004; OECD 2004). However, assuming a one-for-one reduction in poverty with per capita GDP growth seems a gross misrepresentation, and some economists have proposed to introduce a poverty elasticity of growth that would be lower, the higher the initial level of inequality (Ravallion 2004).

I carried out a calibration exercise of the impact on absolute poverty in Latin America resulting from the trends described for per capita GDP and inequality. To do so, I drew on López and Servén's (2006) empirical research that uses the largest and probably the best microdata set so far for a wide sample of developing and developed countries over the last four decades. They follow a parametric approach and find that the observed distribution of income is consistent with the hypothesis of log normality. Under log normality, the contribution of growth and inequality to changes in poverty levels only depends on the average incomes ratio to the defined poverty line and the degree of inequality as measured by the Gini coefficient:

$$P_{\mathrm{o}} = \Phi\left(\frac{\log z/v}{\sigma} + \frac{\sigma}{2}\right),$$

where $\sigma = \sqrt{2}\Phi^{-1}((1+G)/2)$, and P_{o} is the poverty head count, that is, the share of population below the poverty line; Φ is a cumulative normal distribution; v is average per capita income; z is the poverty line; σ is the standard deviation of the distribution; and G is the Gini coefficient.

Thus, all that is needed to carry out the poverty head count calibration is the poverty line/average income ratio and the Gini coefficient. Unfortunately, as noted, direct Gini estimates are available only for the late twentieth century. By splicing the inequality index with the Gini coefficients for the "statistical era," a long-run series of pseudo-Gini can be derived.

The highly tentative results from this heuristic exercise provide explicit conjectures on poverty trends and hopefully offer testable hypotheses for further research.

Table 12.7 summarizes the results of the conjectural exercise. A word of warning is necessary. The measurement error of the poverty levels is possibly high before the late twentieth century because I rely on Gini guesstimates. But trends in poverty are much better captured because the GDP per worker/unskilled wage ratio seems to capture inequality tendencies rather well. Moreover, the other element to be taken on board, the GDP per head/poverty line ratio, is much more accurately estimated and the López and Servén (2006) model employed in the calibration is one of the more robust measures of the complex relationship between growth, inequality, and poverty.

The main finding of the calibration exercise is that absolute poverty has experienced a long-run decline in Latin America since the late nineteenth century, only arrested in the 1890s and the 1930s and reversed in the 1980s (figure 12.4). In fact, the same two phases observed for Latin America's growth can be observed for the evolution of poverty: 1870–1929, interrupted during the 1890s (Baring crisis years) and accelerated in the years from World War I to the Great Depression; and a steady acceleration in poverty decline between World War II and 1980. Once again, the 1980s stand out as an exceptional decade in which poverty increased across the board.

As regards the absolute number of poor, it grew over time as population expanded in response to high fertility rates; only in the 1970s did the number of poor actually fall, only to rise again in the 1980s. For an 18-country sample (all Latin America except Cuba and Haiti) the number of poor went from 93.8 million in 1980 to 127.4 million in 1990, when an absolute poverty line of 1985 Geary-Khamis $4 per day per person is used.

The high coincidence between phases of growth and poverty reduction makes sense; long-run inequality appears to rise to a high plateau, where it has relatively stabilized. It could be argued, along Kakwani and Pernia's (2000) lines, that as inequality remained relatively stable across Latin American countries throughout the second half of the twentieth century, economic growth resulted in proportional increases in the incomes of the poor, and hence pro-poor growth *stricto sensu* never occurred. Here, however, a less strict yardstick for the measurement of poverty is accepted, and a reduction in the share of population below the fixed poverty line is taken as a reduction in absolute poverty.

Table 12.7
Poverty Head Count in Latin America, 1850–1990

	1850	1860	1870	1880	1890	1900	1913
Argentina			64	60	53	56	58
Bolivia							
Brazil	93	96	96	96	95	98	93
Chile	94	89	84	74	71	70	65
Colombia							90
Costa Rica							
Dominican R.							
Ecuador							
El Salvador							
Guatemala							
Honduras							
Mexico							43
Nicaragua							
Panama							
Paraguay							
Peru							
Uruguay			45	48	42	43	32
Venezuela							
LatAm4			89	85	84	85	81
LatAm6							71
LatAm15							
LatAm16							

Notes: 1985 Geary-Kamis $4 per day per person—a calibration (percent).
LatAm4: population-weighted average of Argentina, Brazil, Chile, and Uruguay.
LatAm6: population-weighted average of Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay.

Could it be said, then, that long-run poverty reduction in Latin America was led exclusively by the growth in average incomes? A glance at the numbers in tables 12.1, 12.2, and 12.6 indicates that when we descend to country level, this regularity is not confirmed. True, growth is the only force behind poverty reduction during 1870–1890 in Argentina and Chile, but this is not the case for the episode of substantial poverty contraction, 1913–1929, in which the fall in inequality played a significant role while per capita GDP growth decelerated, as confirmed by the national experiences of Argentina, Chile, and Uruguay. Growth, however, was the single force behind poverty decline in Brazil and almost exclusively in Colombia during the same period. A combination of inequality contraction and growth lies behind the fall in poverty levels in Argentina between the late

	1929	1938	1950	1960	1970	1980	1990
Argentina	41	45	24	22	10	11	17
Bolivia						65	71
Brazil	82	79	75	64	53	33	34
Chile	47	42	36	36	28	31	29
Colombia	70	65	61	57	52	32	37
Costa Rica			54	55	35	28	25
Dominican R.			83	71	64	43	53
Ecuador			87	84	79	66	43
El Salvador			74	66	58	58	64
Guatemala			63	52	37	44	59
Honduras			80	80	76	70	71
Mexico	31	36	43	41	27	13	15
Nicaragua				64	47	53	70
Panama			69	58	48	28	42
Paraguay						44	54
Peru			60	62	43	29	48
Uruguay	15	12	11	8	12	8	6
Venezuela			43	14	11	8	11
LatAm4	67	66	59	52	43	29	30
LatAm6	59	60	55	50	40	25	27
LatAm15			57	51	41	27	30
LatAm16				51	41	27	30

LatAm15: population-weighted average of all Latin American countries but Bolivia, Cuba, Haiti, Nicaragua, and Paraguay.
LatAm16: population-weighted average of all Latin American countries but Bolivia, Cuba, Haiti, and Paraguay.

1930s and the early 1950s, and in Venezuela and Peru during the 1950s and 1960s, respectively. Public redistributive policies (progressive taxes, transfers, and other government spending) seem to have mattered for poverty reduction (Astorga and Fitzgerald 1998).

In the second half of the twentieth century, however, growth emerges as the most prominent element underlying the reduction in absolute poverty. Examples are provided by Argentina and Brazil in the 1960s. This fact perhaps explains why absolute poverty levels remain high in 1990. Growth itself apparently did not suffice to cut down poverty sharply. High persistent inequality prevented a deeper impact on poverty reduction resulting from the intense growth of the 1950–1980 years, as the cases of Brazil and Colombia exemplify, with still one-third of their

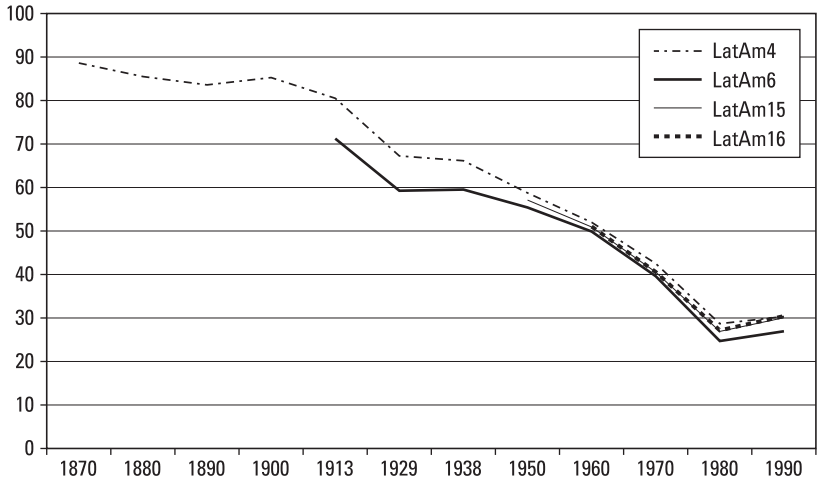

Figure 12.4
Poverty head count in Latin America (population-weighted averages).

populations below the poverty line. Despite sustained growth in the long run, absolute poverty remained high in Latin America at the end of the twentieth century (above one-fourth in 1980 and nearly one-third in 1990). Moreover, the variance across nations has widened (the unweighted coefficient of variation for a 15-country sample rose from 0.37 in 1950 to 1.08 in 1990). In 1980, for example, Brazil, Colombia, and Chile had a poverty head count of around one-third of their populations, and Venezuela and Uruguay were below two digits, and Mexico and Argentina slightly above. A look at small countries reveals that, for instance, in Central America, absolute poverty affected—if Costa Rica is excluded—half its population in 1980 and reached two-thirds in 1990. Andean countries (Bolivia, Ecuador, and Peru) also exhibited spectacular poverty levels in 1990. Actually, if Argentina, Uruguay, Venezuela, and Mexico are excluded, the poverty head count in Latin America reached one-half of the population at the end of the twentieth century.

Conclusions

This chapter has addressed some recurrent questions. Is inequality a long-run curse? How did trends in inequality and growth affect poverty? Unfortunately, only tentative conclusions that provide hypotheses for further research can be offered.

Persistent high inequality is confirmed by historical evidence, with Gini indices ranging from 40 to almost 60. However, inequality has not remained stable, as is usually assumed in the literature; it experienced a long-run rise until it reached a stable plateau in the late twentieth century.

Openness conditioned to some extent how much inequality contributed to poverty reduction. Trade usually raised inequality, and in globalization phases poverty reduction tended to come from growth. Conversely, in isolationist phases Stolper-Samuelson forces led to inequality decline and hence to poverty reduction.

Absolute poverty experienced a long-run decline in Latin America from the late nineteenth century on, its evolution shadowing that of per capita income growth. Long-run poverty reduction in Latin America was led, but not exclusively conditioned, by the growth in average incomes, especially in the second half of the twentieth century. A lower degree of initial inequality, it can be conjectured, would have implied that Latin American growth had a larger payoff in terms of poverty reduction.

Appendix: Data Sources

GDP per Capita and per Worker Volume Indices

In order to facilitate comparisons over space and time, I linked volume estimates computed at national relative prices to benchmark estimates for the year 1980 expressed in 1980 Geary-Khamis dollars available for most Latin American countries from the UN's International Comparisons Project (ICP IV).

Data for twentieth-century Latin American GDP volumes and total population and economically active population comes, unless stated, from Astorga and Fitzgerald (1998), Astorga, Bergés, and Fitzgerald (2004), and Mitchell (1993).

Argentina Della-Paolera, Taylor, and Bózolli (2003), GDP, 1884–1990, spliced with Cortés-Conde (1997) for 1875–1984. I assumed the level for 1870 was identical to that of 1875.

Brazil GDP, Goldsmith (1986), 1850–1980.

Chile Díaz, Lüders, and Wagner (1998) and Braun et al. (1998).

Colombia GRECO (2002), since 1906. I assumed the level for 1900 was identical to that of 1906.

Mexico INEGI (1995), 1850–1990. GDP figures from 1845 to 1896, interpolated from the original benchmark estimates.

Uruguay Bértola (1998), since 1870.

Venezuela Baptista (1997).

Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) I obtained the level for 1913 by assuming a growth for 1913–1920 identical to that of 1920–1925, the latter taken from Astorga, Bergés, and Fitzgerald (2004).

Real Wages

I used Williamson's (1995) real wages, updated in 1996 and 2002, for Argentina, Brazil, Colombia, Cuba, Mexico, and Uruguay, and completed the series up to 1960 for Colombia (GRECO 2002), Cuba (Zanetti and García 1976), and Mexico (INEGI 1995). For Chile, I used data in Braun et al. (1998).

Gini Coefficients

1990 Székely (2001), except Guatemala from Londoño and Székely (2000).

1970–1980 Londoño and Székely (2000) for Brazil, Chile, Colombia, and Costa Rica; Altimir estimates reproduced in Hofman (2001) for Argentina and Bolivia, 1980; WIDER (2004) for the Dominican Republic, 1980; Deininger and Squire (1996) for Bolivia, Ecuador, El Salvador, Guatemala, 1970; Honduras, 1980; Paraguay, 1980; and Uruguay.

1938–1960 Altimir (1998) estimates reproduced in Astorga and Fitzgerald (1998) and Hofman (2001), except for Costa Rica, El Salvador, Guatemala, and Peru from Deininger and Squire (1996, updated).

Gini Backward Projections

Gini coefficients projected backward with inequality indices constructed as the ratio between unskilled wage indices and GDP per worker, with $1913 = 1$.

Notes

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1. EAP stands for "economically active population." A regression of direct estimates of Gini coefficients on backward projections of Gini for 1980 with inequality indices yields a partial correlation of 0.86.

2. Population-weighted averages computed from Astorga, Bergés, and Fitzgerald (2004).

3. This is twice as much in 2004 prices, according to EH.net (S. H. Williamson 2004).

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